

Internal Revenue Service

Program Summary by Appropriations Account

(Dollars in thousands)

Appropriation / Budget Activity	FY 2007	FY 2008	FY 2009		
	Enacted ¹	Enacted	President's Budget	Increase/Decrease	Percent Change
Taxpayer Services	\$2,138,238	\$2,150,000	\$2,150,000	\$0	0.00%
Pre-filing Taxpayer Assistance and Education	576,537	645,375	617,326	(28,049)	-4.35%
Filing and Account Services	1,561,701	1,504,625	1,532,674	28,049	1.86%
Enforcement	4,686,477	4,780,000	5,117,267	337,267	7.06%
Investigations	576,785	593,794	603,466	9,672	1.63%
Exam and Collections	3,959,741	4,038,309	4,363,826	325,517	8.06%
Regulatory	149,951	147,897	149,975	2,078	1.41%
Operations Support	3,544,835	3,680,059	3,856,172	176,113	4.79%
Infrastructure	845,203	843,720	883,325	39,605	4.69%
Shared Services and Support	1,179,216	1,170,686	1,243,703	73,017	6.24%
Information Services	1,520,416	1,665,653	1,729,144	63,491	3.81%
Business Systems Modernization	212,659	267,090	222,664	(44,426)	-16.63%
Health Insurance Tax Credit Administration	14,856	15,235	15,406	171	1.12%
Subtotal, Internal Revenue Service	\$10,597,065	\$10,892,384	\$11,361,509	\$469,125	4.31%
Offsetting Collections - Reimbursable	101,976	104,898	107,904	3,006	2.87%
Mandatory Appropriation - User Fees	157,078	258,372	177,655	(80,717)	-31.24%
Total Program Operating Level	\$10,856,119	\$11,255,654	\$11,647,068	\$391,414	3.48%

¹ FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Explanation of Request

The IRS administers America's tax laws and collects the revenue that funds most federal government operations. The IRS taxpayer service program assists millions of taxpayers with understanding and meeting their tax obligations. The IRS enforcement program is aimed at deterring taxpayers inclined to evade their responsibilities while vigorously pursuing those who violate tax laws.

Total resources to support the IRS activities for FY 2009 are \$11,647,068,000. This includes \$11,361,509,000 from direct appropriations, \$107,904,000 from reimbursable programs, and \$177,655,000 from user fees. The direct appropriations level is a \$469,125,000 increase, or an increase of 4.3 percent, over the FY 2008 enacted level of \$10,892,384,000.

The IRS FY 2009 President's Budget supports the IRS and the Department of the Treasury Strategic Plans, as well as the tax compliance strategies addressed in *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* (see http://www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf) and the *IRS Taxpayer Assistance Blueprint (TAB)* (see <http://www.irs.gov/individuals/article/0,,id=156394,00.html>). These plans underscore the IRS commitment to ensure fairness, observe taxpayer

rights, and reduce taxpayer burden while working in a balanced manner to reduce noncompliance.

The IRS strategic plan goals are:

- *Improve Taxpayer Service*—Help people understand their tax obligations, making it easier for them to participate in the tax system.
- *Enhance Enforcement of the Tax Law*—Ensure taxpayers meet their tax obligations, so that when Americans pay their taxes, they can be confident their neighbors and competitors are also doing the same.
- *Modernize the IRS through its People, Processes and Technology*—Strategically manage resources, associated business processes, and technology systems to effectively and efficiently meet service and enforcement strategic goals.

The FY 2009 President's Budget request for the IRS increases funding as part of a strategy to improve compliance by focusing on the following priorities:

- Improving voluntary compliance and reducing the tax gap by:
 - ♦ Increasing front-line enforcement resources,
 - ♦ Improving taxpayer service options,

- ◆ Enhancing research, and
- ◆ Implementing legislative and regulatory changes.
- Maintaining balance between taxpayer service and enforcement.
- Investing in technology to improve infrastructure, modernize, and increase the productivity of existing resources.

Enforcement Program: The IRS continues its emphasis on tax enforcement, increasing collections of delinquent tax debt from \$33.8 billion in 2001 to an all-time high of \$59.2 billion, yielding a 5.6 to 1 return on investment for all IRS activities in 2007. Revenue growth has been the greatest in the areas of corporate taxes and high income individual taxes. The FY 2009 President's Budget request for the enforcement program is \$7,487,209,000, an increase of \$489,983,000 or 7 percent over the FY 2008 enacted level. As in the past three budget requests, the Administration proposes to include these enforcement increases as a Budget Enforcement Act program integrity cap adjustment (see chapter 15, Budget Reform Proposals in the Analytical Perspectives volume of the 2009 Budget). The IRS enforcement program is funded by the Enforcement and Operations Support appropriations. The Administration also proposes to provide the IRS with flexibility to transfer up to one percent of enforcement related operations support funds to taxpayer service related support activities. This flexibility is required to account for allocation changes within the operations support appropriation.

Increased resources for the IRS exam and collection programs yield direct measurable results. The FY 2009 President's Budget will generate \$2.0 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2011. However, this estimate does not include the revenue impact from the deterrence value of these investments and other IRS enforcement programs which are conservatively estimated to be at least three times the direct revenue impact.

The complexity of the nation's current tax system is a significant reason for the tax gap, and even sophisticated taxpayers make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is a critical part of addressing the tax gap. To this end, the IRS remains committed to a balanced program of assisting taxpayers in both understanding the tax law and remitting the proper amount of tax.

Taxpayer Service Program: Helping the public understand its tax reporting and payment obligations is a cornerstone of taxpayer compliance. The FY 2009 President's Budget request for the taxpayer service program is \$3,636,230,000, an increase of \$23,397,000 or 0.6 percent over the FY 2008 enacted level. The IRS taxpayer service program is funded by the Taxpayer Services and Operations Support appropriations.

Providing quality taxpayer service helps taxpayers avoid making unintentional errors. The IRS answers tax questions before returns are filed to help taxpayers avoid inadvertent noncompliance and reduce burdensome post-filing notices and

Taxpayer Service and Enforcement Programs

(Dollars in thousands)

Programs	FY 2007	FY 2008	FY 2009	
	Enacted ¹	Enacted	President's Budget ²	Percent Change
Taxpayer Service	\$3,547,252	\$3,612,833	\$3,636,230	0.6%
Taxpayer Services Appropriation	2,138,238	2,150,000	2,150,000	
Operations Support Appropriation	1,409,014	1,462,833	1,486,230	
Enforcement	\$6,822,298	\$6,997,226	\$7,487,209	7.0%
Enforcement Appropriation	4,686,477	4,780,000	5,117,267	
Operations Support Appropriation	2,135,821	2,217,226	2,369,942	
Total	\$10,369,550	\$10,610,059	\$11,123,439	4.8%

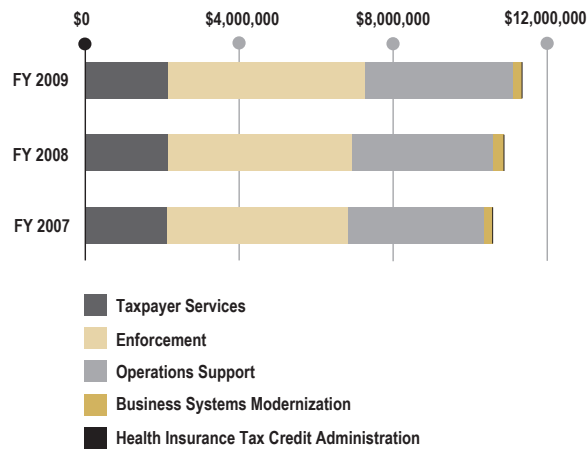
¹FY 2007 Enacted represents the approved FY 2007 Operating Plan.

²The Operations Support funds allocated to the taxpayer service and enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

other correspondence from the IRS. Through many sources, the IRS provides year-round assistance to millions of taxpayers, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, the IRS.gov web site, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

IRS Funding History

[Dollars in Thousands]



Purpose of Program

The IRS and its employees represent the face of U.S. government to more American citizens than any other government agency. The IRS collects 96 percent of the revenues that fund the federal government. The IRS FY 2009 President's Budget request will help strengthen the government's ability to collect more of the taxes that are legally owed.

The great majority of Americans pay the tax they owe on time, but there is still significant non-compliance due to non-filing, underreporting, and non-payment. The latest IRS estimate shows that the overall net tax gap for Tax Year 2001 was approximately \$290 billion.

The FY 2009 President's Budget request supports improving compliance by funding activities that promote better tax administration and compliance with the tax laws and focus on the following program priorities and objectives:

- Addressing and improving compliance among small business and self-employed taxpayers by increasing audits of high-income returns; collecting taxes with respect to filed and unfiled tax returns; and increasing document matching of individual taxpayer account information.
- Discouraging and deterring non-compliance with emphasis on corrosive activity by corporations, high-income taxpayers, and abusive domestic and offshore tax entities.
- Enhancing research to better allocate resources to IRS programs.
- Simplifying the tax process and improving voluntary compliance for the taxpaying public by implementing legislative proposals.
- Modernizing information systems and business processes to maximize resources and improve service and enforcement.

IRS FY 2009 Budget Highlights

(Dollars in thousands)

Appropriation	Taxpayer Services	Enforcement	Operations Support	Business Systems Modernization	Health Insurance Tax Credit Administration	Total
FY 2008 Enacted	\$2,150,000	\$4,780,000	\$3,680,059	\$267,090	\$15,235	\$10,892,384
Changes to Base						\$0
Maintaining Current Levels (MCLs)	\$54,726	\$126,003	\$82,580	\$1,354	\$322	\$264,985
Pay Annualization	14,435	33,184	9,883	332	20	57,854
Pay Inflation Adjustment	38,823	87,006	25,399	1,022	53	152,303
Non-Pay Inflation Adjustment	1,468	5,813	47,298	0	249	54,828
Transfers	\$0	(\$1,000)	(\$1,370)	\$0	\$0	(\$2,370)
Transfer to TIGTA			(1,370)			(1,370)
Transfer to FinCEN		(1,000)				(1,000)
Efficiencies/Savings	(\$14,969)	(\$48,762)	(\$30,367)		(\$151)	(\$94,249)
Efficiency Savings		(48,762)	(22,443)		(151)	(71,356)
Increase e-File Savings	(8,996)		(1,304)			(10,300)
Non-Recr Savings	(5,973)		(6,620)			(12,593)
Reinvestments	\$4,463	\$0	\$28,141	\$0	\$0	\$32,604
Increase Efficiency through Submission Processing Consolidations	2,006					2,006
Address Correspondence Inventory	2,457					2,457
Fully Fund Postage Base			28,141			28,141
Subtotal, FY 2009 Changes to the Base	\$44,220	\$76,241	\$78,984	\$1,354	\$171	\$200,970
Total FY 2009 Base	\$2,194,220	\$4,856,241	\$3,759,043	\$268,444	\$15,406	\$11,093,354
Program Changes						
Program Decreases	(\$46,911)	\$0	\$0	(\$45,780)	\$0	(92,691)
Taxpayer Assistance Centers and Outreach	(31,200)					(31,200)
Taxpayer Advocate Service	(7,711)					(7,711)
Volunteer Income Tax Assistance Grants Program	(8,000)					(8,000)
Business Systems Modernization (BSM)				(45,780)		(45,780)
Program Increases	\$2,691	\$261,026	\$97,129	\$0	\$0	\$360,846
Enforcement Initiatives	\$2,691	\$261,026	\$97,129	\$0	\$0	\$360,846
Reduce the Tax Gap for Small Business / Self-Employed	2,691	132,093	33,714			168,498
Reduce the Tax Gap for Large Businesses		57,009	12,479			69,488
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance		35,473	15,585			51,058
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity		11,075	2,622			13,697
Expand Document Matching		25,376	9,684			35,060
Implement Legislative Proposals to Improve Compliance			23,045			23,045
Subtotal, FY 2009 Program Changes	(\$44,220)	\$261,026	\$97,129	(\$45,780)	\$0	\$268,155
Total FY 2009 President's Budget Request	\$2,150,000	\$5,117,267	\$3,856,172	\$222,664	\$15,406	\$11,361,509

FY 2009 Budget Adjustments

The IRS total funding increase for FY 2009 is \$469,125,000, which includes \$264,985,000 for maintaining current levels; \$2,370,000 in transfers to TIGTA and FinCEN; a net decrease of \$61,645,000 from efficiencies/savings and reinvestments; and a net program increase of \$268,155,000 to improve voluntary compliance and reduce the tax gap. These investments fund increased front-line enforcement efforts, enhanced research, and implementation of legislative proposals to improve compliance. By FY 2011, these investments are projected to increase annual enforcement revenue by \$2.0 billion. In addition, the tax compliance improvement legislative proposals will generate \$36 billion over the next ten years.

The IRS program initiatives focus on enhancing enforcement activities targeted at improving compliance. The budget request supports these activities by proposing:

- \$286,743,000 to reduce the tax gap for large businesses and small business/self employed, increase compliance of domestic taxpayers with offshore activity, and minimize revenue loss by increasing document matching efforts;
- \$51,058,000 to increase support for research to better understand the reasons for taxpayer non-compliance; and
- \$23,045,000 to implement legislative proposals to improve compliance.

FY 2008 Enacted

The FY 2008 enacted level for the IRS is \$10,892,384,000, supporting an estimated 91,123 FTE.

Maintaining Current Levels (MCLs)

Adjustments Necessary to Maintain Current Levels +\$264,985,000 / 0 FTE Funds are requested for: FY 2009 cost of the January 2008 pay increase of \$57,854,000; proposed January 2009 pay raise of \$152,303,000; and non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$54,828,000.

Transfers Out

Transfer to TIGTA -\$1,370,000 / 0 FTE This base transfer moves funds from IRS to Treasury Inspector General for Tax Administration (TIGTA) for its costs associated with building operations and support services, such as public transportation subsidy, security, management training, and telecommunications, which is currently paid directly by the IRS.

Transfer to FinCEN -\$1,000,000 / 0 FTE This base transfer permanently moves funds from IRS to Financial Crimes Enforcement Network (FinCEN) to cover the costs associated with the Bank Secrecy Act (BSA) e-filing system operations and maintenance contract.

Efficiencies/Savings

Efficiency Savings -\$71,356,000 / -769 FTE The IRS continues to improve the efficiency of all of its programs. The Budget reflects efficiency savings in the Enforcement and Operations Support accounts. Enhancements of technology; improved workload selection models; on-going management productivity and efficiency improvements; and streamlining, centralizing, and consolidating work processes and programs will lead to operational efficiencies resulting in significant savings in FY 2009. This budget request proposes to reinvest a portion of these savings to *Fully Fund Postage Base*.

Increase e-File Savings -\$10,300,000 / -207 FTE This program decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to 4.2 million fewer returns filed on paper (3.5 million individual and 0.7 million business) in FY 2009. This budget request proposes to reinvest

these savings to cover the costs of *Increase Efficiency through Submission Processing Consolidations* and *Address Correspondence Inventory*.

Non-Recur Savings -\$12,593,000 / 0 FTE This reflects non-recurring, one-time costs associated with the IRS FY 2008 initiatives, such as new hire training, background investigations, and acquisition of telecommunications equipment, computers, and printers.

Reinvestments

Increase Efficiency Through Submission Processing Consolidations +\$2,006,000 / 0 FTE Increased use of e-Filing options have driven continued efforts to consolidate the processing of individual returns into fewer sites. Increased e-File savings will be reinvested to fund one-time severance pay costs for the ramp-down of the Andover submissions processing site. As the Andover consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the IRS.

Address Correspondence Inventory +\$2,457,000 / +30 FTE This reinvestment will fund additional staffing to address increased volumes of correspondence and to assist in resolving account questions from individual taxpayers. As a result of increased volume and complexity, funds will also be used to provide additional technical training on the processing of the Form 1040X, *Amended U.S. Individual Income Tax Return*.

Fully Fund Postage Base +\$28,141,000 / 0 FTE This reinvestment will fully fund the IRS postage costs. Increases in IRS enforcement and service-related correspondence activities have resulted in an increase in postage costs to contact taxpayers and issue notices via mail. Increased costs are not only due to an increase in volume, length, and weight of the mailings, but also due to a larger proportion of the mailings being sent via certified mail to ensure taxpayer privacy.

Program Decreases

Taxpayer Assistance Centers and Outreach -\$31,200,000 / -262 FTE Additional resources were provided in FY 2008 for increasing outreach and education activities for individuals, businesses, and tax-exempt entities and increasing the number

of tax returns prepared at Taxpayer Assistance Centers (TACs). In FY 2009, the IRS will continue to work to implement the taxpayer assistance improvements detailed in the Taxpayer Assistance Blueprint (TAB).

Taxpayer Advocate Service -\$7,711,000 / -25 FTE Additional Taxpayer Advocate Service (TAS) funds were provided in FY 2008 to expand TAS case processing activities. In FY 2009, these activities will be restored to levels in line with resources for other taxpayer service programs. However, the IRS does request additional TAS program resources where appropriate in support of enforcement staffing initiatives (e.g., the FY 2009 *Reduce the Tax Gap for Small Business/Self Employed* initiative).

Volunteer Income Tax Assistance Grants Program -\$8,000,000 / 0 FTE Funds provided in FY 2008 included \$8,000,000 for a new Volunteer Income Tax Assistance (VITA) matching grant demonstration program for tax return preparation assistance. This funding is available until September 30, 2009. Given the ramp-up time to establish the grant application and approval process, these grants are expected to be issued for the 2009 filing season.

Business Systems Modernization (BSM) -\$45,780,000 / -25 FTE The FY 2009 proposed level of \$222,664,000 will allow continued progress on key modernization projects including the Customer Account Data Engine (CADE), Accounts Management Services (AMS), and Modernized e-File (MeF).

Program Increases

Reduce the Tax Gap for Small Business Self Employed +\$168,498,000 / +1,608 FTE This enforcement initiative will increase enforcement efforts to improve compliance among small business and self-employed taxpayers by increasing audits of high-income returns, increasing audits involving flow-through entities, implementing voluntary tip agreements, increasing document-matching audits, and collecting unpaid taxes from filed and unfiled tax returns. This request will generate \$981 million in additional annual enforcement revenue once new hires reach full potential in FY 2011.

Reduce the Tax Gap for Large Businesses +\$69,488,000 / +519 FTE This enforcement initiative will increase examination coverage of large and mid-size corporations, including multi-national businesses, foreign residents, and smaller corporations with significant international activity as well as enable the IRS to further use existing systems to capture other electronic data through scanning and imaging. The initiative will allow the IRS to address risks arising from the rapid increase in globalization, and the related increase in foreign business activity and multi-national transactions where the potential for non-compliance is significant. Funding of this request will generate \$544 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011.

Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance +\$51,058,000 / +393 FTE This enforcement initiative will support and expand ongoing research studies of filing, payment, and reporting compliance to provide a comprehensive picture of the overall taxpayer compliance level. Research allows the IRS to better target specific areas of noncompliance, improve voluntary compliance, and allocate resources more effectively to reduce the tax gap. Improved research data will refine workload selection models reducing audits of compliant taxpayers. The audits associated with these studies will generate \$16 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011. This initiative improves the fairness of the tax system and voluntary taxpayer compliance, increases revenue, and reduces burden on compliant taxpayers.

Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity +\$13,697,000 / +124 FTE This enforcement initiative will address domestic taxpayer offshore activities. Abusive tax schemes, reporting of flow-through income, and high-income individuals are prime channels or candidates for tax avoidance. This initiative will focus on uncovering offshore credit cards, disguised corporate ownership, and brokering activities in order to identify individual taxpayers who are involved in offshore arrangements that facilitate noncompliance. Funding of this request will generate \$102 million in additional

annual enforcement revenue once the new hires reach full potential in FY 2011.

Expand Document Matching +\$35,060,000 / +413 FTE This enforcement initiative will increase coverage within the Automated Underreporter (AUR) program. This program matches third party information returns (e.g., W-2 income reports) against income claimed on tax returns. When potential underreporting is discovered taxpayers are contacted to resolve the issue. This request will produce \$359 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011.

Implement Legislative Proposals to Improve Compliance +\$23,045,000 / 0 FTE While the IRS continues to address compliance by improving customer service and using traditional methods of enforcement, the FY 2009 President's Budget also includes several legislative proposals that would provide additional enforcement tools to improve compliance. It is estimated that these proposals will generate \$36 billion in revenue over ten years. The proposals would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties (see Receipts in the Analytical Perspectives volume of the 2009 President's Budget). This enforcement initiative includes funding for purchasing software and making modifications to the IRS IT systems necessary to implement the proposals.

Explanation of Budget Activities

Taxpayer Services

The FY 2009 President's Budget request is \$2,150,000,000 in direct appropriations, \$22,454,000 from reimbursable programs, and \$126,950,000 from user fees, for a total operating level of \$2,299,404,000. The direct appropriations level maintains the FY 2008 enacted level. This appropriation funds the following budget activities.

Pre-Filing Taxpayer Assistance and Education (\$617,326,000 from direct appropriations and \$905,000 from reimbursable programs) This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. In

addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.

Filing and Account Services (\$1,532,674,000 from direct appropriations, \$21,549,000 from reimbursable programs, and \$126,950,000 from user fees) This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods.

Enforcement

The FY 2009 President's Budget request is \$5,117,267,000 in direct appropriations and \$43,700,000 from reimbursable programs, for a total operating level of \$5,160,967,000. The direct appropriations level is an increase of 7.1 percent from the FY 2008 enacted level. This appropriation funds the following budget activities.

Investigations (\$603,466,000 from direct appropriations and \$33,678,000 from reimbursable programs) This budget activity funds the criminal investigations programs that explore potential criminal violations of the internal revenue tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. It also includes investigation and prosecution of tax and money laundering violations associated with narcotics organizations.

Exam and Collections (\$4,363,826,000 from direct appropriations and \$9,905,000 from reimbursable programs) This budget activity funds programs that enforce the tax laws and compliance through examination and collection programs that ensure proper payment and tax reporting. The budget activity also supports appeals and litigation activities associated with exam and collection.

Regulatory (\$149,975,000 from direct appropriations and \$117,000 from reimbursable programs) This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; enforcement of regulatory rules, laws, and approved business practices; and supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Office of Professional Responsibility is also funded within this budget activity and is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2009 President's Budget request is \$3,856,172,000 in direct appropriations, \$41,750,000 from reimbursable programs, and \$50,705,000 from user fees, for a total operating level of \$3,948,627,000. The direct appropriations level is an increase of 4.8 percent from the FY 2008 enacted level. This appropriation funds the following budget activities.

Infrastructure (\$883,325,000 from direct appropriations and \$16,100,000 from user fees) This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-Automated Data Processing (ADP) equipment.

Shared Services and Support (\$1,243,703,000 from direct appropriations and \$14,002,000 from reimbursable programs) This budget activity funds policy and management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.

Information Services (\$1,729,144,000 from direct appropriations, \$27,748,000 from reimbursable programs, and \$34,605,000 from user fees) This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the

information systems critical to the support of tax administration programs. The IRS business programs rely on these systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities including the public's toll-free access to tax information.

Business Systems Modernization (BSM)

The FY 2009 President's Budget request is \$222,664,000 in direct appropriations. This is a reduction of 16.6 percent from the FY 2008 enacted level. This appropriation funds the following budget activity.

BSM (\$222,664,000 in direct appropriations)

This budget activity funds the planning and capital asset acquisition of information technology (IT) to modernize the IRS business systems, including labor (salaries and expense dollars) and related contractual costs. The program combines best practices and expertise in business solutions and internal management from the IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations.

Health Insurance Tax Credit Administration (HITCA)

The FY 2009 President's Budget request is \$15,406,000 in direct appropriations. This is an increase of 1.1 percent from the FY 2008 enacted level. This appropriation funds the following budget activity.

HITCA (\$15,406,000 in direct appropriations)

This budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002.

Legislative Proposals

The FY 2009 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will generate \$36 billion over the next ten years. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

- *Expand information reporting* – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:
 - 1) require information reporting on payments to corporations;
 - 2) require basis reporting on security sales;
 - 3) require information reporting on merchant payment card reimbursements;
 - 4) require a certified Taxpayer Identification Number (TIN) from contractors;
 - 5) require increased information reporting on certain government payments;
 - 6) increase information return penalties; and
 - 7) improve the foreign trust reporting penalty.
- *Improve compliance by businesses* – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:
 - 1) require electronic filing by certain large organizations; and
 - 2) implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.
- *Strengthen tax administration* – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:
 - 1) expand IRS access to information in the National Directory of New Hires for tax administration purposes;
 - 2) permit disclosure of prison tax scams;
 - 3) make repeated willful failure to file a tax return a felony;
 - 4) facilitate tax compliance with local jurisdictions;
 - 5) extend statutes of limitations where state tax adjustments affect federal tax liability; and
 - 6) improve the investigative disclosure statute.
- *Expand penalties* – Penalties play an important role in discouraging intentional non-compliance. A specific proposal to expand penalties would:
 - 1) impose a penalty on failure to comply with electronic filing requirements.

Improve Tax Administration and Other Miscellaneous Proposals

The Administration has put forward additional proposals relating to IRS administrative reforms. Five of these proposals are highlighted below:

The first proposal modifies employee infractions subject to mandatory termination and permits a broader range of available penalties. It strengthens taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations.

The second proposal allows the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities.

The third proposal eliminates the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding \$50,000. This proposal requires that the Secretary of Treasury establish standards to determine when an opinion is appropriate.

The fourth proposal extends the IRS authority to use the proceeds received from undercover operations through December 31, 2012. The IRS was authorized to use proceeds it received from undercover operations to offset necessary and reasonable expenses incurred in such operations. The IRS authority to use proceeds from undercover operations expired on December 31, 2007.

The fifth proposal equalizes penalty standards between tax return preparers and taxpayers, reducing unnecessary conflicts of interest between them.

IRS Performance by Programs

Programs	Performance Measure	FY 2005	FY 2006	FY 2007		FY 2008	FY 2009
		Actual	Actual	Actual	Target Met?	Target	Target
Taxpayer Service	Customer Service Representative (CSR) Level of Service (%) Oe (L)	82.6%	82.0%	82.1%	✓	82.0%	82.0%
	Customer Accuracy - Tax Law Phones (%) - Ot	89.0%	90.9%	91.2%	✓	91.0%	91.0%
	Percent of Individual Returns Processed Electronically (%) - Oe (L)	51.1%	54.1%	57.1%	✓	61.8%	64.7%
Enforcement	Collection Coverage - Units (%) Ot (L)	53.0%	54.0%	54.0%	✓	53.0%	53.0%
	Examination Coverage-Individual (%) Oe (L)	0.9%	1.0%	1.0%	✓	1.0%	1.0%
	AUR Efficiency E (L)	1,701	1,832	1,956	✓	1,961	1,823

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term goal

The standard applicable to tax return preparers for disclosed positions would be reasonable basis, but for certain reportable transactions with a significant purpose of tax avoidance, the existing standard would persist, i.e., the preparer should have a reasonable belief that the position, more likely than not, would be sustained on the merits.

Description of Performance

In FY 2007, the IRS continued to improve its service and enforcement results. Enforcement revenue collected increased, electronic filing continued to expand, and high quality services were provided to taxpayers. The following is a summary of significant program performance improvements:

Improve Taxpayer Service

The IRS delivered a successful 2007 filing season and continued to show improvements in key areas involving services for taxpayers in FY 2007.

- The IRS delivered the Taxpayer Assistance Blueprint (TAB) Phase 2, which included the TAB Strategic Plan and recommendations focused on specific areas of work.
- Electronic filing for individuals continued to increase. For the third year in a row, more than half (57.1 percent) of all individual returns were filed electronically.
- The number of taxpayers interacting with the IRS through the IRS.gov website continued to increase. More than 1.35 billion web pages were viewed on IRS.gov and more than 32.1 million taxpayers used the “Where’s My Refund?” application. The popular IRS.gov website received an overall customer satisfaction score of 74 based on a 100 point scale as measured by

the American Customer Satisfaction Index. This represents a 5 percent increase over the 2005 filing season score and places IRS.gov among the better performing federal websites.

- The IRS provided a high level of service for taxpayers seeking traditional phone-based or in-person assistance. In FY 2007, the IRS customer assistance call centers answered 33.2 million assistor telephone calls and maintained an 82.1 percent level of service on the telephone with an accuracy rate of 91.2 percent on tax law questions.
- Outreach and educational services were enhanced through partnerships between the IRS and public organizations. Through its 11,922 Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families. Over 76,000 volunteers filed 2.63 million returns. Additionally, the IRS established 16 new clinics in rural areas to help low-income taxpayers meet their tax obligations.
- The IRS successfully implemented the Telephone Excise Tax Refund (TETR), a one-time payment available on federal income tax returns to refund previously collected long distance telephone taxes. Successful delivery of the integrated TETR approach enabled the filing of over 94 million 2006 tax returns including TETR refund claims resulting in more than \$4.81 billion in telephone excise tax refunds. In addition, the IRS prevented more than \$291 million in potential erroneous refunds with the aid of a return selection tool created specifically to catch questionable TETR requests. The comprehensive approach to administering this refund allowed the IRS to successfully meet taxpayer and stakeholder expectations.

- The IRS also introduced split refund capability, which provided taxpayers with more control over their refunds by allowing direct deposit of a refund in up to three financial accounts.

Enhance Enforcement

The potential for narrowing of the nation's tax gap hinges on the IRS efforts to improve compliance with U.S. tax laws. The IRS showed consistent improvement in its enforcement results by targeting a wide range of contributors to the tax gap. Enforcement revenue from all sources reached a record level of \$59.2 billion in FY 2007, an increase of 75 percent over FY 2001. In FY 2007, steady progress was maintained in improving enforcement activities over the FY 2006 successes and included:

- Increased high-income audits by 29 percent;
- Increased total individual audits by 8 percent;
- Increased small business audits by 17 percent, and corporate audits by 3 percent; and
- Increased collection case closures by 12 percent and dollars collected by 13 percent.

The IRS continued to investigate significant tax, money laundering, and other financial activities that adversely affect tax administration. Performance levels for the criminal investigation program remained high in FY 2007 with 4,269 completed criminal investigations and 2,155 convictions, an increase of 3 percent and 7 percent, respectively, over FY 2006.

In FY 2007, the IRS substantially enhanced its productivity by implementing technological and process improvements including the implementation of a new AUR case selection and scoring methodology for individuals, resulting in a 20.5 percent increase in assessments. The IRS also continued to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage.

Maintaining a strong enforcement presence in the tax exempt and governmental sectors is particularly important given the role that a small number of these entities play in accommodating abusive transactions entered into taxable parties. In FY 2007, the IRS expanded its enforcement presence by:

- increasing enforcement contacts in the tax exempt and governmental sector by 12 percent over FY 2006 levels, and
- conducting reviews of executive compensation practices among tax-exempt organizations and initiating a new phase of the project to address loans to officers.

The IRS released its long-range plan for improving compliance, Reducing the Federal Tax Gap, A Report on Improving Voluntary Compliance. The report outlines the components that must be addressed in order to reduce the tax gap and builds upon the research and program improvements already initiated.

Modernize the IRS through its People, Processes, and Technology

The IRS must manage its resources, businesses, and technology systems optimally to effectively and efficiently support its service and enforcement mission. The following information highlights the IRS modernization achievements in FY 2007.

- For the eighth consecutive year, the IRS achieved an unqualified audit opinion from the Government Accountability Office on its financial statements;
- The IRS continued to enhance and implement its human capital strategy in support of business goals in FY 2007. The strategy included bringing critical personnel on board and achieving objectives for employee training, leadership development, and workforce retention;
- The IRS delivered the milestones for the majority of its major modernization projects within the target of +/- 10 percent variance for cost and schedule; and
- The IRS developed a five-year IT Modernization Vision and Strategy that addresses priorities for modernizing front-line tax administration functions. The strategy guides IT investment decision making for 2007.

Modernization efforts focused on key tax administration systems, Customer Account Data Engine (CADE), Modernized e-File (MeF), and Accounts Management Services (AMS) that provide

additional benefits to taxpayers. Significant modernization accomplishments for 2007 include:

- Processed over 11 million returns in CADE issuing refunds of \$11.6 billion;
- Added new capabilities to the MeF system that allowed the receipt of electronically filed Partnership Returns (Forms 1065 & 1065B), meeting the mandate for taxpayers with 100 or more partners to file electronically; and
- Deployed the first two releases of the AMS system which is designed to enable authorized users to resolve taxpayer issues by accessing integrated account data. AMS builds the applications and databases that enable IRS employees to use the data

in CADE to facilitate faster, more accurate issue resolution and results in quick and accurate access to authoritative account information in response to customer inquiries.

Security of infrastructure and IT systems remains a top priority for the IRS. In FY 2007, the IRS continued to update its systems, processes, and training efforts to ensure taxpayer information is properly safeguarded. Highlights of security measures implemented include securing 100 percent of IRS laptops with automatic hard drive encryption to protect data in the event of computer loss or theft, and deployment of mandatory information protection training for all IRS employees and contractors.